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The 2016 US presidential election, in which Republican candidate Donald J. Trump was elected president on an explicitly protectionist platform, marks a potential turning point where the United States could reverse course on 80 years of movement toward freer trade and enhanced multilateral cooperation.¹ Asia figures prominently in these developments.

How the United States reached this juncture is not hard to discern. Over the past two generations, the US economy has experienced a tremendous increase in globalization. The share of international trade in national income has risen steadily from 9 percent in 1960 to roughly 30 percent today (figure 1). That expansion of trade has largely been driven by falling transportation and communications costs and rising incomes, but supportive trade policies have also played a role. Asia has been an important part of this process, accounting for more than one-third of US trade for the last 30 years.

Trade is beneficial: It has been estimated that between 1950 and 2015 the United States gained more than \$2 trillion from international trade, with \$500 billion or more gains from liberalization still on the table (Hufbauer and Lu 2017).² Broadly speaking, the United States has specialized in agriculture, high technology manufacturing, and business services, while importing a wide range of manufactures from abroad. In recent years, this process has been

¹ In his inaugural address, Trump stated that “We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength.” Available at <https://www.whitehouse.gov/inaugural-address>, accessed on September 22, 2017.

² Advances in information technology have increased the potential international tradability of services, meaning that Hufbauer and Lu’s estimates of potential future gains may represent a floor rather than a ceiling (Hufbauer, Jensen, and Stephenson 2012; Gervais and Jensen 2015).

pushed forward by the development of extensive cross-border supply chains, particularly in vehicle assembly and electronics. Asia has figured prominently in these global value networks.

The gains from trade have not been shared equally, however. International trade theory indicates that the expansion of trade will impact the earnings of different factors of production. In the United States, this means that the expansion of trade will tend to depress the wages of low-skilled workers, increase the wages of some skill classes, and may well increase the returns to capital, land, and other natural resources. To the extent that the highly skilled are the predominate owners of capital and land, in the United States, the net effect of these changes is likely to increase income and wealth inequality, absent compensatory policies.

In fact, median incomes in the United States have grown slowly in recent decades while inequality has risen (Edwards and Lawrence 2013; Hellebrandt and Mauro 2016). But the United States is not alone in this regard, and the consensus among economists is that technological change, not international trade, is likely to be the primary driver of these changes in the labor market and in income growth and distribution. Expansion of international trade—in particular the so-called “China shock” of the 1990s and the granting of permanent normal trade relations following China’s accession to the World Trade Organization (WTO) in 2001, together with a period of Chinese currency undervaluation—contributed to a surge in manufactured imports with adverse consequences for US manufacturing employment (Autor, Dorn, and Hanson 2013). But that period of rapid increase in import penetration has passed, and Hicks and Devaraj (2015), who decompose US job loss in manufacturing during the period 2000–2010 into components associated with technological change, trade, and shifts in domestic demand, find that productivity change accounted for 88 percent of the job losses.

But you can't vote against the next generation of iPhones or Boeing widebodies (nor would anyone want to). In this malaise, international trade, or more precisely international trade agreements, become the scapegoat of those unhappy with prevailing economic trends. The United States is not alone in experiencing public dissatisfaction with trade policy, and the growing salience of immigration concerns both in the United States and elsewhere suggest that the expressions of unease with both international trade and immigration may reflect apprehensions that run deeper than the national income accounts.³

An obvious solution would be to accompany trade opening with improved social safety nets, but the United States has failed to do this. While the benefits of trade may be on the order of \$1 trillion per year, expenditure on the Trade Adjustment Assistance (TAA) program is peanuts, a little over \$800 million for the 2016 budget. To make matters worse, the consensus of professional observers, since at least the 1990s, is that the program is ineffective, with one evaluation concluding costs exceeded benefits and it was a net loser for society (Irwin 2016).⁴

More broadly, the provision of improved safety nets should be accompanied by efforts to improve the underlying competitiveness of the US economy through improved education, skills upgrading, and alterations in the tax code to increase investment and shift its composition toward more productive uses.

³ For example, Freund and Sidhu (2017) find that racial identification dominated import penetration or changes in manufacturing employment as explanations for voting patterns in the 2016 presidential election.

⁴ To the extent that labor market dislocations may be caused by any number of forces ranging from technological change to international trade to tax policy, rather than making eligibility contingent on the cause of job loss as under the existing TAA program, a superior approach would be to adopt a generalized system of wage insurance and retraining to address the needs of those displaced regardless of the specific cause (Kletzer and Litan 2001), or to expand the Earned Income Tax Credit (EITC). These proposals have the attraction of rewarding continued participation in the labor market, which has declined, in part because of misuse of the existing disability program as a permanent unemployment compensation scheme.

But under current political conditions in the United States, such policy innovations appear unlikely. Instead, the Trump administration is responding with protectionist trade policy. Since the 1930s, when a global drive to raise trade barriers deepened the Great Depression, US specialists and the public at large have shared the belief that a liberal US-led rules-based international trade regime is in the United States' national interest. Trade policy has thus seldom, if ever, risen to a top-tier issue in electoral politics. In this regard, the 2016 election marked a departure. How the policy terrain settles following this tectonic shift is highly uncertain.

US TRADE POLICY UNDER THE TRUMP ADMINISTRATION

During the campaign, Donald Trump emphasized three recurring themes in the area of trade policy.⁵ The first was the importance of trade balances, including bilateral trade balances. In this view, a major challenge facing the United States is its \$500 billion merchandise trade deficit, around half of which is with China, with Japan and Korea also contributing. Trump and his advisors interpret the deficit as a net reduction in aggregate demand that depresses output below capacity and constrains labor below its full employment level.

From Trump's perspective, the second and third themes of his campaign, currency manipulation to gain unfair advantage in trade and "disastrous" trade agreements, provide both the explanation for the deficit problem and the starting points for a solution. With respect to the former, much of his focus has been on China. On his campaign website, Trump promised that

⁵ This paper focuses on international trade policy. Immigration and international finance policy are important aspects of international economic policy, but thus far the Trump administration's policies in these areas have constituted less of a break with the past than in the area of trade policy, and the administration itself appears to attach less urgency to addressing these issues compared to trade.

“On day one of the Trump administration the U.S. Treasury Department will designate China as a currency manipulator” and to “begin a process that imposes appropriate countervailing duties on artificially cheap Chinese products” (emphasis in the original).⁶ Trump advisors subsequently criticized Germany as well for currency manipulation.

On trade policy, Trump lambasted the Trans-Pacific Partnership (TPP) and indeed pulled the United States out of TPP negotiations shortly after assuming office. With respect to existing agreements, he repeatedly called the North American Free Trade Agreement (NAFTA) the “worst in history,” threatened to slap 35 percent tariffs on imports from Mexico, and indicated that he was prepared to abrogate the pact if it were not renegotiated to his satisfaction.⁷ Trump repeatedly called the Korea-US Free Trade Agreement (KORUS) a “job-killer,” asserting that the deal caused the destruction of 100,000 American jobs.⁸ He expressed hostility toward outward foreign direct investment, and this attitude disinclines him toward concluding the

⁶ "Reforming the U.S.-China Trade Relationship to Make America Great Again," <https://web.archive.org/web/20160624080246/https://www.donaldjtrump.com/positions/us-china-trade-reform> (accessed on June 24, 2016). In an interview with the *New York Times*, he mentioned imposing a 45 percent tariff, but subsequently backed away from this specific figure (Maggie Hoffman, “Donald Trump Says He Favors Big Tariffs on Chinese Exports,” *New York Times*, January 7, 2016, http://www.nytimes.com/politics/first-draft/2016/01/07/donald-trump-says-he-favors-big-tariffs-on-chinese-exports/?_r=0; audio: <http://graphics8.nytimes.com/packages/audio/politics/011516trump/trump.mp3> (accessed on June 27, 2016).

⁷ "Here's Donald Trump's Presidential Announcement Speech," TIME Staff, June 16, 2015, <http://time.com/3923128/donald-trump-announcement-speech/> (accessed on June 24, 2016). "Trump calls NAFTA a 'disaster'", CBS News, September 25, 2015 <http://www.cbsnews.com/videos/trump-calls-nafta-a-disaster/> (accessed on June 27, 2016). See also Trump trade policy speech in Monessen, PA, June 28, 2016, <https://www.youtube.com/watch?v=IMCVRu5m1ig> (accessed on June 28, 2016).

⁸ Trump trade policy speech in Monessen, PA, June 28, 2016. <https://www.youtube.com/watch?v=IMCVRu5m1ig> (accessed on June 28, 2016).

bilateral investment treaty with China, which was left unfinished when President Barack Obama left office.

Since coming into office, the administration has pursued an explicitly mercantilist trade policy, though thankfully action has not yet risen to the bombastic rhetoric of the campaign trail. It is unclear whether the relative lack of concrete action reflects the distance between governing and the political theater of the campaign trail, the biding of time for the optimal moment to act, the slowness of American governments with their thousands of political appointments to get organized (and the Trump administration has been unusually slow to fill positions), or sheer disorganization. It would be a mistake however to interpret the mixed record of fulfilling campaign pledges as signaling a lack of intent. Although President Trump did not honor his pledge to declare China a currency manipulator his first day in office and impose a tariff to offset the advantage of currency undervaluation, he did withdraw US support for TPP; has issued the Executive Order Regarding the Omnibus Report on Significant Trade Deficits (March 31, 2017), which could be interpreted as laying the intellectual and policy groundwork for substantial new protection; issued Executive Order On Buy American and Hire American, which expanded domestic preferences in public procurement and tightened immigration rules; initiated the renegotiation of NAFTA with a threat to abrogate the agreement if results of the renegotiation were not satisfactory and indicated an interest in terminating or renegotiating KORUS; and has embarked on intensified contingent or process protection.

New protection

New protection has taken the form of anti-dumping (AD) actions, countervailing duty (CVD) cases, and rarely used global safeguard and threat to national security measures.⁹ AD cases are triggered by a two-part test: an affirmative finding that imports have been dumped and that the domestic industry has suffered material damage (“the injury test”). The finding of dumping is relatively routine; as a practical matter, the determination of injury by the US International Trade Commission (USITC) poses the only meaningful barrier to the imposition of protection. Between 1980 and 2016, the USITC has made affirmative findings in roughly half of the cases brought before it. In the vast majority of those cases, remedy has taken the form of exporting firm-specific import duties. In a small number of cases, relief has taken the form of suspension agreements, also known as voluntary export restraints (VERs). At the end of 2016, there were 292 AD orders in place, 102 of which were on imports from China, covering 9.2 percent of imports. AD cases are almost always complainant-initiated: On only six occasions in the past quarter-century has the government initiated an AD case (Bown 2017a, table 1a).

CVD cases, which involve an investigation that imports have been supported by foreign government subsidies, occur less frequently than AD cases, with 631 cases over the period 2002–2016. Chinese exports to the United States are even more disproportionately affected by CVDs, accounting for 45 percent of the CVD orders in place, covering 6.3 percent of US imports from China.

Global safeguards (Section 201) and national security restrictions (Section 232) are comparatively rare, with 31 and 14 investigations, respectively, between 1980 and 2016. The global safeguards law differs from ADs or CVDs in that it involves no allegation of “unfair” trade or determination that imports causes injury. The president is authorized to impose “most

⁹ This section derives from the excellent analysis of Bown (2017a).

favoured nation" (MFN)-style protection uniformly on all partners. The Section 232 national security rationale is the least common provision for special protection—only twice was protection imposed under this mechanism, most recently in 2001.

The aggressive nature of the Trump administration policy is underscored by its willingness to self-initiate cases (i.e., not wait until a firm or industry complains), a departure from past practice. Sectors that have come under scrutiny include steel, aluminum, softwood lumber, and solar cells.

At the time the Trump administration took office, 3.8 percent of US imports were subject to special protections; if protection is applied to cases initiated during the first 100 days of the Trump administration, that share could double (figure 2). China has been disproportionately affected by these “contingent” or “process” protection measures, both in terms of the frequency of their application to Chinese exports, as well as the levels of protection imposed. In part because Chinese exports already face considerable barriers in the US market, in steel and solar cells for example, new protection would tend to hit partners that currently have relatively free access to the US market. South Korea, which exports both steel and solar cells to the United States, would be the worst affected, with protective measures imposing an additional 4 percent of exports to the United States, raising the share facing protective barriers to 12 percent—a share even higher than China’s! Canada would see the biggest marginal increase with nearly 8 percent of exports encountering barriers to trade due to the softwood lumber case.

By and large these policies are undesirable. They will raise prices for domestic producers and consumers, and the practice of self-initiating exacerbates the harm by signaling that the administration is “open for business” in terms of granting relief. The use of unilateral measures detracts from the existing WTO dispute settlement mechanism, and the invocation of the national

security rationale could undermine the rules themselves. And such practices invite both foreign emulation and retaliation. In point of fact, the share of US exports facing special protection in foreign markets has been rising in recent years (Bown 2017a, figure 4).

Treaty renegotiation

The withdrawal from TPP amounts to a self-inflicted wound: It not only denies the United States the economic benefits that the agreement would have brought (Noland, Robinson, Moran 2016), but sends a signal to Asia of US abdication of leadership in the face of a rising China (Noland 2016). The remaining TPP-11 are moving forward without the United States, though there is some notion that they may be treading water in the hopes that US policy will shift.¹⁰

Renegotiation of the NAFTA agreement has become the most visible aspect of trade policy in the early days of the Trump administration. Given their extensive investments in North America, particularly in motor vehicles and electronics, in addition to the opportunities foregone with the US withdrawal from TPP, Asian firms also stand to lose from any disruption to NAFTA.

Analysts agree that like an old house, the quarter-century old NAFTA agreement could use some refurbishment to bring it up to modern standards (Bergsten and de Bolle 2017).

Ironically, the existing TPP text, to which all three of the NAFTA signatories agreed but which was subsequently rejected by the Trump administration, would make a plausible starting point,

¹⁰ After President Trump ordered the firing of Federal Bureau of Investigation Director James Comey, the odds offered by London bookmaker Ladbrokes of Trump completing his four-year term fell to less than 50 percent. Vice President Mike Pence, who would succeed Trump, unless he himself exited office, is pro-trade.

embodying provisions relating to e-commerce and digital trade, as well as stricter provisions on environmental and labor standards, as US Secretary of Commerce Wilbur Ross has observed.¹¹ The three NAFTA countries would not automatically transfer those commitments, made in the context of the 12 country TPP agreement, to a revised NAFTA. Sectoral cooperation in energy, improved dispute settlement procedures—including with respect to the now controversial Chapter 11 provision on investor-state disputes—and Chapter 19 on trade remedies are also candidates for revisitation. The point is simply that there are constructive ways that the existing agreement could be updated, and each of the countries will enter the negotiations with their own set of demands.¹²

That said, some of the ideas floated by the US side are inadvisable. These include targeting trade balances (Bergsten 2017), tightening rules of origin and/or adding a US-specific content requirement for motor vehicles (Freund 2017a), and adding a sunset provision that would require periodic renewal by all three signatories (Schott 2017).

If the renegotiation were to fail, and President Trump were to act on his threat to abrogate the agreement, NAFTA's dissolution would have an adverse impact on the US economy. Trade relations with Canada would revert back to the provisions of the US-Canada Free Trade Agreement that preceded NAFTA. This development by itself would not be disastrous, but it would also not address any of the issues that continue to vex bilateral trade relations between the two countries.

¹¹ "Commerce Secretary Wilbur Ross Talks Trade," *Wall Street Journal*, June 18, 2017, <https://www.wsj.com/articles/commerce-secretary-wilbur-ross-talks-trade-1497838380> (accessed on September 24, 2017).

¹² For a Mexican perspective, see Ortiz-Mena (2017). See Dobson, Tory, and Trefler (2017) for a Canadian view.

The impact on US-Mexican relations would be profound. Trade barriers would rise to their MFN levels in both countries. Supply chains, particularly in motor vehicle assembly, a sector of key interest to Asian auto assemblers, would be disrupted. The increase in tariffs imposed on US exports to Mexico would be compounded by the likely depreciation of the Mexican peso against the US dollar, resulting in an increase in the US bilateral deficit—the exact opposite outcome to the stated goal of the Trump administration (Freund 2017b).

NAFTA is not the only trade pact that the Trump administration has sought to renegotiate or terminate. It was widely reported in the press that the administration was days away from announcing the unilateral termination of the KORUS free trade agreement (FTA) when the September 3, 2017 North Korean nuclear test dissuaded the president from undertaking this action as scheduled. The United States and South Korea have begun renegotiating KORUS, and like NAFTA there is a modest agenda of revisions that seems justified. Whether the renegotiation is successful in averting an abrogation of the agreement remains to be seen.

POTENTIAL FLASHPOINTS WITH CHINA

The Trump administration has been explicit that it regards China as the primary source of concern in regards to external economic relations.¹³ As observed earlier, Chinese exports are more frequently subject to trade impediments and encounter higher barriers entering the US market than goods from other countries. Nevertheless, China has also been the focus of additional trade policy concerns as well.

¹³ See “U.S. Trade Policy Priorities: Robert Lighthizer, United States Trade Representative,” September 18, 2017, <https://www.csis.org/events/us-trade-policy-priorities-robert-lighthizer-united-states-trade-representative> (accessed on September 19, 2017).

Currency manipulation

In regard to the central campaign claim that China is a currency manipulator, the currency manipulation provisions of the Trade Facilitation and Enforcement Act of 2015 have three components: a definition of currency manipulation, a protocol for “enhanced engagement” (i.e., consultation) with trade partners deemed currency manipulators, and a menu of remedies if consultation fails. On the first issue, the law requires the US Treasury to conduct, as part of its existing semiannual exchange rate reports, “enhanced analysis” of major trade partners that have “a significant bilateral trade surplus with the United States ... a material current account surplus and ... engaged in persistent one-sided intervention in the foreign exchange market.” It then mandates that “the President, through the Secretary of the Treasury, shall convene enhanced bilateral engagement with each country for which an enhanced analysis ... is included in the report....” The law specifies that if, after one year, the president determines that the situation has not been rectified, he or she “shall” take “one or more” specified actions. These actions include prohibiting “the Overseas Private Investment Corporation from approving any new financing;” excluding that country from government procurement; instructing the US executive director at the International Monetary Fund to advocate for enhanced surveillance of that country; and instructing the US Trade Representative “to take into account ... in assessing whether to enter into a bilateral or regional trade agreement” with that country “the extent to which that country

has failed to adopt appropriate policies to correct” currency undervaluation and trade imbalances.¹⁴

Under Treasury’s definitional thresholds, no economy currently satisfies all three criteria. Five major trading partners of the United States (China, Japan, Korea, Taiwan, and Germany) met two of the three criteria for enhanced analysis, however, and have been placed on a “Monitoring List.” If China were formally declared a currency manipulator under the existing law, the president would have a number of possible remedies, the most drastic of which would be to bar Chinese enterprises from the US government procurement market.

If the administration wanted to do something more aggressive, it could either instruct Treasury to relax its definitions (to affirmatively identify more manipulators), and/or go back to Congress to authorize additional penalties. New legislative provisions might include requiring the inclusion of currency manipulation provisions in future trade agreements or authorizing countervailing protection or intervention in the currency markets. The former suggestion would likely be rejected by other countries, and the latter might be subject to challenge in the WTO.

Potential sources of trade friction

Another big issue is China’s market economy status in the WTO. When China joined the WTO it was classified as a non-market economy (NME), which allows the Department of Commerce to use very elastic procedures in anti-dumping investigations. China understandably wants to constrain this discretion, and under its WTO accession agreement, NME status was to end in

¹⁴ Trade Facilitation and Trade Enforcement Act of 2015, <https://www.congress.gov/bill/114th-congress/house-bill/644/text> (accessed on September 28, 2017).

December 2016. If the Trump administration continues to treat China as an NME in anti-dumping investigations, China could probably take the United States to the WTO on the issue of market economy status and win, and indeed it has already initiated a complaint. But going the WTO route would take a couple of years and might erode US support for the whole WTO system, which has benefitted China greatly, especially in light of President Trump's periodic threats to ignore the WTO or withdraw the United States entirely. Moreover, the rise of countervailing duty cases in recent years means that the real degree of de-protection if China were to be granted market economy status is probably less than either proponents or opponents expect—regardless of China's status, US trade law retains significant tools to penalize unfair trade practices (Bown 2016). It might be preferable to enter into negotiations to strike a balance between China's desires for improved market access and US concerns about market access in China. Sectoral market economy status might be one component of an overall accommodation.

Another component might be improved protection for US intellectual property rights (IPR). The Office of the Director of National Intelligence estimated that IPR theft costs the US economy \$400 billion a year, and a reassessment based on recent evidence led by former US Director of National Intelligence Dennis Blair and former US Ambassador to China Jon Huntsman concluded that the \$400 billion estimate remained plausible (Blair and Huntsman 2017). Not all of this loss is due to Chinese actions, but China looms large in American concerns in this area, and in August 2017, the Trump administration launched an investigation into Chinese practices that could potentially result in trade retaliation.

TRADE WAR SCENARIOS

Existing laws give the president considerable authority to undertake unilateral action without congressional approval (Hufbauer 2016). If the president were to decide that the current situation warranted imposing punitive across-the-board tariffs, and the Chinese were to respond in kind, the resulting trade war would damage the US economy, costing jobs, depressing output, and creating financial market turmoil (Noland, Robinson, and Moran 2016).¹⁵ IMF (2017) symmetrically finds that such a tariff war would damage China as well.

The Noland, Robinson, Moran model indicates that from the standpoint of the United States, the capital goods sectors such as high-speed drives and gear manufacturing (a multibillion dollar industry producing inputs used mainly in power transmission equipment) would be the worst hit. But the damage would not be limited to capital goods sectors. Iron and other metallic ore mining and aluminum production are also among the most intensely affected sectors, and the negative shock would forcefully propagate to so-called “non-tradable” sectors, such as retail

¹⁵ Noland, Robinson, and Moran start with simulations from a large, traditional, multiequation, econometrically estimated macroeconomic model developed by Moody’s Analytics (Zandi et al. 2016). The Moody’s trade war simulations are similar to ones obtained by Oxford Analytica and can be considered representative of this class of models. (McKibben and Stoeckel [2017], using a dynamic intertemporal computable general equilibrium model, obtain less dramatic results when the United States imposes a large tariff but China does not respond. It is unclear whether the qualitatively different result is due to model or scenario difference.) The Moody’s model simulations are disaggregated using a model based on detailed intermediate input demand (an input-output table) and final demand data for the US economy that is arranged in a social accounting matrix (SAM), which provides the organizing framework underlying the national income and product accounts. The SAM supports a highly disaggregated linear SAM-multiplier model that traces the direct and indirect effects on disaggregated sectoral demand and production caused by changes in final demand by the aggregate actors: households, government, saving/investment, and foreign countries (exports). The SAM-multiplier model links changes in exogenous aggregate demands provided by the macroeconometric model with changes in production and employment at the detailed 369 industry level. The model embodies fixed labor input coefficients, so changes in sectoral activity levels will be mirrored in changes in sectoral employment. The results are further broken down using state- and county-level industry employment data that support disaggregation of the national SAM-multiplier model. See Noland, Robinson, and Moran (2016) for further detail.

distribution and housing, not normally associated with international trade. Given the pattern of hiring in these sectors, the labor market impact would be regressive. Geographically, Washington would be the worst affected state, followed by Massachusetts, California, and Michigan (figure 3). In absolute terms, the New York, Los Angeles, and Chicago metropolitan areas would be the worst affected (table 1; figure 4). This result in part reflects the sheer size of these metropolitan areas. If one examines the intersection of cities with both high absolute and percentage job losses, the worst-affected metropolitan areas include Boston, MA; Columbus, OH; Detroit, MI; Grand Rapids, MI; Los Angeles, CA; Louisville, KY; Raleigh, NC; San Diego, CA; San Francisco, CA; San Jose, CA; and Seattle, WA (table 2). From a political economy perspective, it is worth noting that these urban areas did not support President Trump in the 2016 election.

Such catastrophic trade wars have been avoided thus far. It is possible that rather than developing through the imposition of across-the-board tariffs, the trade wars could develop as smaller, more incremental affairs. If instead of imposing across-the-board tariffs, China responded to US actions by retaliating against specific sectors such as aircraft, soybeans, or business services, the magnitude and incidence of the damage would obviously differ accordingly.¹⁶ Chinese termination of aircraft purchases could destroy 179,000 US jobs. The greater Seattle, WA; Los Angeles, CA; and Wichita, KS areas are the worst affected (table 3). It should be noted that the trade data distinguish between civilian and military sales, but the

¹⁶ The possibility that China could retaliate against the US higher education sector by denying Chinese students passports or exit visas to depart for the United States for education has been floated in the Chinese press. Unfortunately, anomalies in the way the relevant data is collected across different US government data sources precludes explicitly modeling this scenario. However, the amount of educational services and other services supplied to Chinese students enrolled in US universities appears to be roughly of the same magnitude as the business services scenario.

county-level production data do not. Inclusion of military production in the county-level activity matrix could change the geographical incidence—but not the numerical magnitude—of the 179,000 jobs lost. This consideration might be particularly salient with respect to the Los Angeles metropolitan area because of the prominence of military-related production in Southern California. Similarly, a county-level activity matrix was constructed on the basis of 2013 levels. In 2011 Boeing opened a major facility in Charleston, SC, which it expanded in 2014 (the plant now employs 4,000 people). If the activity matrix included the enlarged Boeing facility, Charleston might turn up on the list of most heavily affected localities as well.

China could retaliate in a way that is less subject to a WTO challenge and more respectable in diplomatic circles by directing its state-owned enterprises (SOEs) to stop buying American. A variety of metrics—share of assets in the industrial sector, share of employment in business services—suggest that Chinese SOEs may account for approximately 40 percent of Chinese demand for US business service imports. (Apart from SOEs, the Chinese government might also influence managements of other businesses connected to the Chinese Communist Party.) Such an action would cost 85,000 US jobs. The worst hit areas almost constitute a map of high-skill US urban areas (table 4). The greater New York and Los Angeles regions take the biggest hit, but they are followed by the smaller Seattle and Boston metropolitan areas, reflecting the prominence of business service exports from those cities. Chicago, San Francisco, Dallas, Washington, Houston, and Philadelphia round out the ten worst affected metropolitan areas in this scenario.

Finally, China could retaliate against American agricultural products such as soybeans or corn. While one would expect that it would be easier to substitute transactions in such commodities across alternative buyers and sellers, US-China bilateral trade in soybeans accounts

for roughly one-quarter of the global market, making a smooth reorientation of trade flows unlikely. In a possibly comparable case, the 1980 US grain embargo against the Soviet Union, imposed after the Soviet invasion in Afghanistan, disrupted trade patterns that year, but the effects were offset by the following year (USDA 1986). The figures reported here, which assume no short-run trade diversion, may therefore exaggerate the impact.

A soybean embargo would differ from the two previously discussed scenarios in two important ways. First, the worst affected areas would be a band of rural counties running from Mississippi, through Arkansas, Tennessee, and into Missouri, with 21 counties experiencing a 10 percent or greater decline in employment. And unlike job loss in large, dense, urban labor markets, it would be exceedingly difficult for displaced workers to find alternative employment in these lightly populated contiguous rural counties. Second, the geographical incidence of these losses fall disproportionately on areas of the South and Midwest that voted for President Trump and are often represented by pro-trade Republicans whose support has historically been needed to pass trade legislation through the Congress, especially the Senate.

Another possibility is that the United States could abrogate the KORUS FTA. In this case, the issue would not be a foreign partner imposing retaliation but rather the removal of preference margins created by the FTA. Two examples are considered as illustrative possibilities: business services and beef exports.¹⁷

First, in the case of business services, presumably withdrawal from KORUS would mean a shift in Korean demand away from American providers primarily in favor of European competitors who would retain their preferential access to the Korean market through the

¹⁷ The case of aerospace was also considered, but insofar as these products entered Korea duty-free before KORUS, the withdrawal from KORUS would not create a negative preference margin.

European Union's free trade agreement (though the United Kingdom's withdrawal from the European Union would degrade European competitiveness in business services). For want of a better metric, this loss of preference is modeled as a 40 percent reduction in Korean demand for American business services, the same percentage decline as in the Chinese retaliation case, though for an entirely different rationale.¹⁸

This loss of demand leads to a short-run loss of 19,500 American jobs. The geographical distribution is similar, though not identical to the Chinese case because of the differences in the composition of US business service exports to the two markets. In the KORUS case, the most heavily affected metropolitan areas would be New York, Los Angeles, Chicago, Washington, Dallas, Boston, San Francisco, Houston, Philadelphia, and Miami. In terms of the "worst-affected" regions, combining relatively high absolute and percentage job losses, Bridgeport, CT; Salt Lake City, UT; San Diego, CA; and San Jose, CA could be added to that list.

Second, in the case of beef, US exports to Korea in 2016 were approximately \$1 billion. The loss of free trade access would put US exporters at a significant disadvantage with respect to competitors from Australia, New Zealand, and Canada, all of which would retain preferential access through their countries' free trade agreements with Korea. This possibility is modeled as the disappearance of US beef exports to Korea. As in the soybean case, eventually trade would be reallocated across partners, but in the short-run, the loss of KORUS preferences could cost the United States 17,400 export-related jobs. As in the soybean retaliation case, the geographical incidence of these job losses is distinct, falling largely on the Midwest, though the relative

¹⁸ US business services to Korea were approximately \$10.5 billion in 2015, the most recent year for which data is available. Most of this consists of licensing fees. These were excluded from the calculation. Exports of insurance services, financial services, telecommunications, computer, and information services come to \$3 billion. The 40 percent export reduction is applied to this figure.

magnitude of the shock is much smaller, with local job losses seldom exceeding 1 percent of employment at the county level (figure 4).

MEDIUM-RUN CONCERNS

While the possibility of a trade war created by the president's broad legal authority to take unilateral action in the trade arena is concerning, the greater threat may emanate from how the administration's trade policy proclivities could interact with US macroeconomic policy. It is at this juncture where problems could escalate quite dramatically.

The president ran on a platform of tax cuts, increases in spending on infrastructure and defense, deregulation (especially with respect to the financial and energy sectors), and some ill-defined reform of the healthcare system. The Congress twice failed to pass healthcare reform legislation, and hence the budget savings that were expected to "pay" for the tax cuts have not materialized.

To compound fiscal pressure, a proposal by the House Republican leadership to offset revenue losses due to tax rate cutting with the imposition of a border adjustment tax (BAT) faltered. Under a BAT, exports would be exempted from corporate income taxes, but unlike the present system, companies could not deduct expenditures on imports when computing their corporate tax liability. The price of imported goods would rise by 20 percent, but the proponents of the plan argue that the value of the US dollar in the foreign exchange market would also rise by 20 percent, rendering the tax change imperceptible to American consumers. There are myriad

reasons to doubt that everything would even out cleanly in reality, and the proposal encountered significant opposition and died.¹⁹

The United States was already on track for some additional fiscal stimulus that would likely generate a short-term growth spurt, budget deficits, rising interest rates, and an appreciated dollar—even with the budgetary saving from healthcare reform and additional revenues generated by the BAT. The upshot was a mix of spending increases and tax cuts, without offsetting budget savings and revenue enhancements. Proponents have taken to arguing that this package would be “self-financing” by stimulating growth and hence generating increased revenue through that channel, but the historical experience (Reagan in 1981, Bush in 2001 and 2003) renders that judgement dubious.²⁰ McKibben and Stoeckel (2017) confirm this intuition with a dynamic intertemporal general equilibrium model: The Trump macro policy is likely to deliver rising budget deficits, an appreciating real exchange rate, a widening trade deficit, and ironically, a fall in manufacturing employment.²¹ McKibben and Stoeckel (2017) find that the

¹⁹ The value of the dollar in the foreign exchange market is affected by many factors, not just trade flows. In other countries where similar tax systems have been introduced, local prices have risen sharply (Freund and Gagnon 2017). Industries that use a lot of imported components in production, such as automobiles and electronics, could be particularly hard hit and forced to raise prices to consumers. Some economists argue that these effects would be regressive, disproportionately hitting the poor who rely on cheap imported products (Cline 2017). Others believe that the plan would run afoul of US commitments to the WTO and in principle could even lead to massive trade retaliation against the United States, far in excess of any retaliation that the WTO has authorized in the past (Bown 2017b). If the proposal had been enacted, it could have constituted yet another trigger for a trade war.

²⁰ Growth acceleration could be constrained if the United States significantly increased the deportation of undocumented workers who make up nearly 5 percent of the US labor force (Zandi et al. 2016; Robinson, Hinojosa-Ojeda, Thierfelder 2017; McKibben and Stoeckel 2017).

²¹ One can debate how close the United States is to full employment and therefore how much stimulus the economy could take before overheating and how aggressively the Fed might raise interest rates. The US current account deficit was on a widening trajectory before the election, and the Trump macroeconomic policy could reinforce this tendency (Cline 2016).

rise in global interest rates would be sufficiently large, and that given the large share of investment in Chinese GDP, the depressing effect on investment would outweigh the direct stimulus through the trade channel, resulting in a negative net impact on Chinese growth.

What could transpire is a very nasty version of the first Reagan administration: Growing trade deficits led Reagan to impose trade protection, indeed “more trade protection than any president since Herbert Hoover,” in the infamous words of then-Treasury Secretary James Baker.

And President Ronald Reagan was an ideological free-trader, who had to at least feign reluctance to impose protection.

That ideology was one reason that protection in the Reagan administration took the form of “voluntary export restraints” undertaken by America’s trade partners, particularly Japan, rather than self-imposed tariff protection.

Trump administration officials have pointed approvingly to the first Reagan administration’s policies toward Japan as a model, at times even claiming that Reagan merely threatened protection and the Japanese complied. But it goes without saying that the relationship between the United States and China today is fundamentally different. The United States was Japan’s political and military guarantor in the context of the Cold War. Ultimately, Japan would comply with US demands in the trade sphere, however grudgingly. Today’s rivalry between the United States and China could not be more different.

The real issue for Asia and the rest of the world may be less in the Trump administration's first 100 days than in 2018 or 2019, when the Trump fiscal stimulus kicks in and the administration is tempted to reach for trade protection in a quixotic attempt to deal with growing trade deficits. A nation’s trade deficit fundamentally reflects the difference between saving and investment—if a nation consumes more than it produces, it runs a deficit; if it

produces more than it consumes, it runs a surplus. Trade policy can affect the sectoral and geographic composition of the deficit, but in the long run, the trade balance is determined by the saving-investment balance. The most direct way to lower a nation's trade deficit is to increase its saving rate, most obviously by reducing public dissaving. Unfortunately, US fiscal policy appears to be moving in the opposite direction.

CONCLUSION

The United States benefits from international trade, and Asia and the United States have a mutually beneficial and deepening economic relationship. A byproduct of that deepening economic integration, however, is a tendency toward increased income and wealth inequality within the United States. The appropriate response is not to adopt trade protection but rather implement a package of improved adjustment measures and longer-term policies to enhance US competitiveness.

The rejection of TPP was, to borrow a sports term, an own goal that damaged US interests and further opened the door for Chinese leadership. The United States has a multifaceted economic relationship with China, and the issues of currency manipulation, NME status, and market access are all potential flashpoints. Mismanagement of these issues could harm the US economy and create collateral damage elsewhere in Asia. The pursuit of bilateral deals is likely to be difficult (because of the perception of their zero-sum nature) and have relatively limited impact. Rather than retreating or pursuing bilateralism, a re-examination, revision, and expansion of a regional agreement along the lines of TPP is more likely to generate substantial and sustained benefits to the US economy.

Unfortunately, the Trump administration is in effect doing the opposite: increasing contingent or process protection, which could significantly hurt some Asian partners, and demanding renegotiation of existing deals such as NAFTA and KORUS, threatening to terminate them if renegotiations are unsuccessful. There is scope for improvement of both agreements. But badly renegotiated deals could harm the US economy and disadvantage trade reliant partners in Asia. In the worst case, these actions could spark trade wars to the detriment of all.

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Figure 1

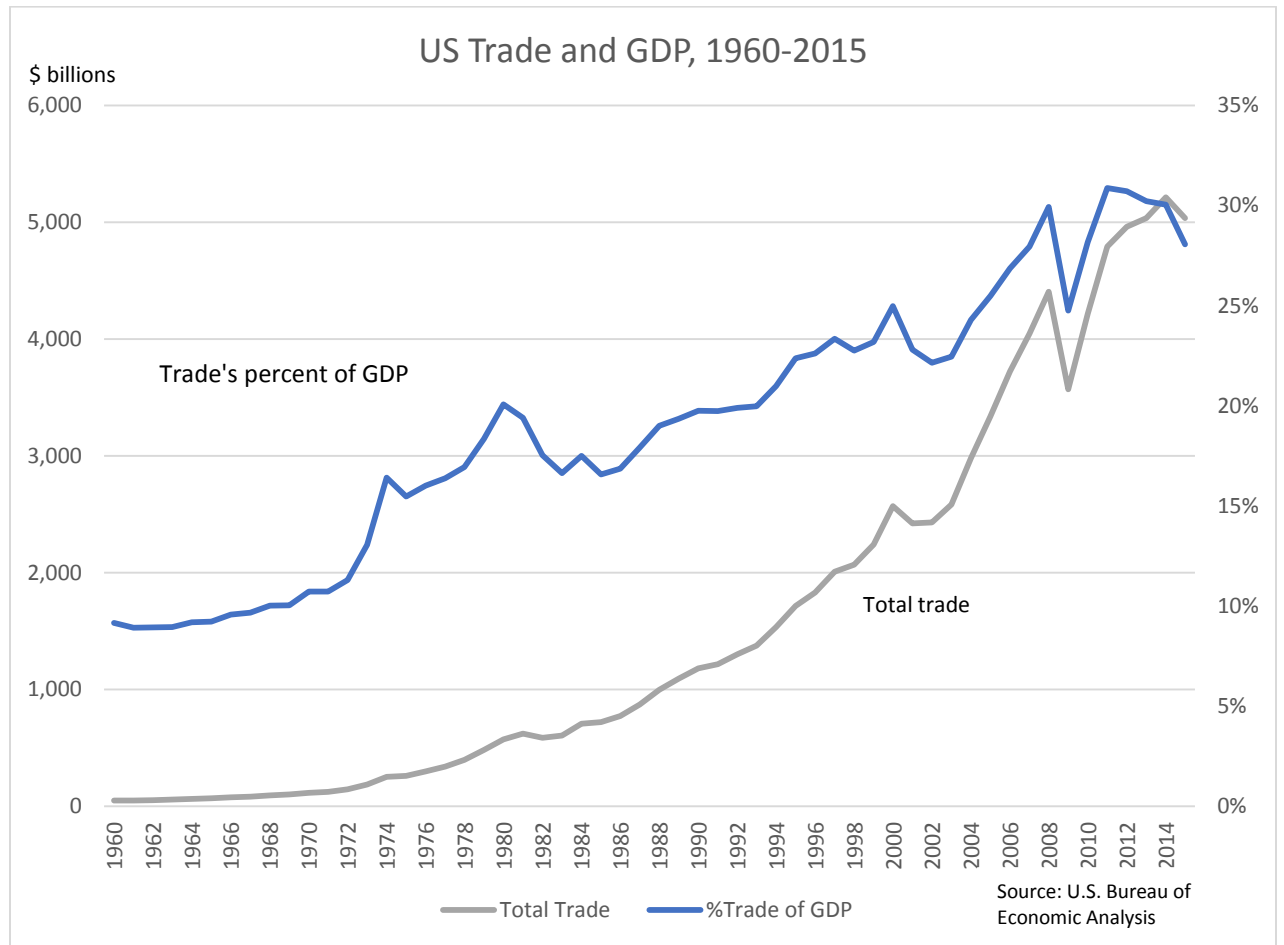


Figure 2

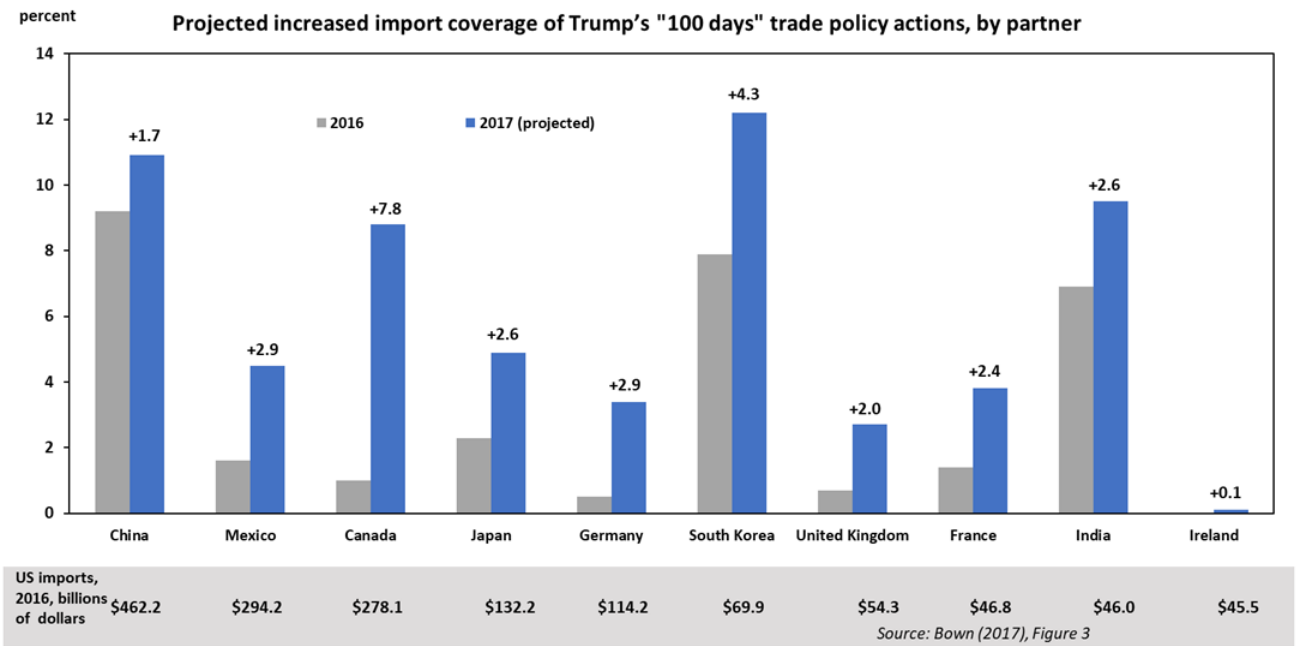
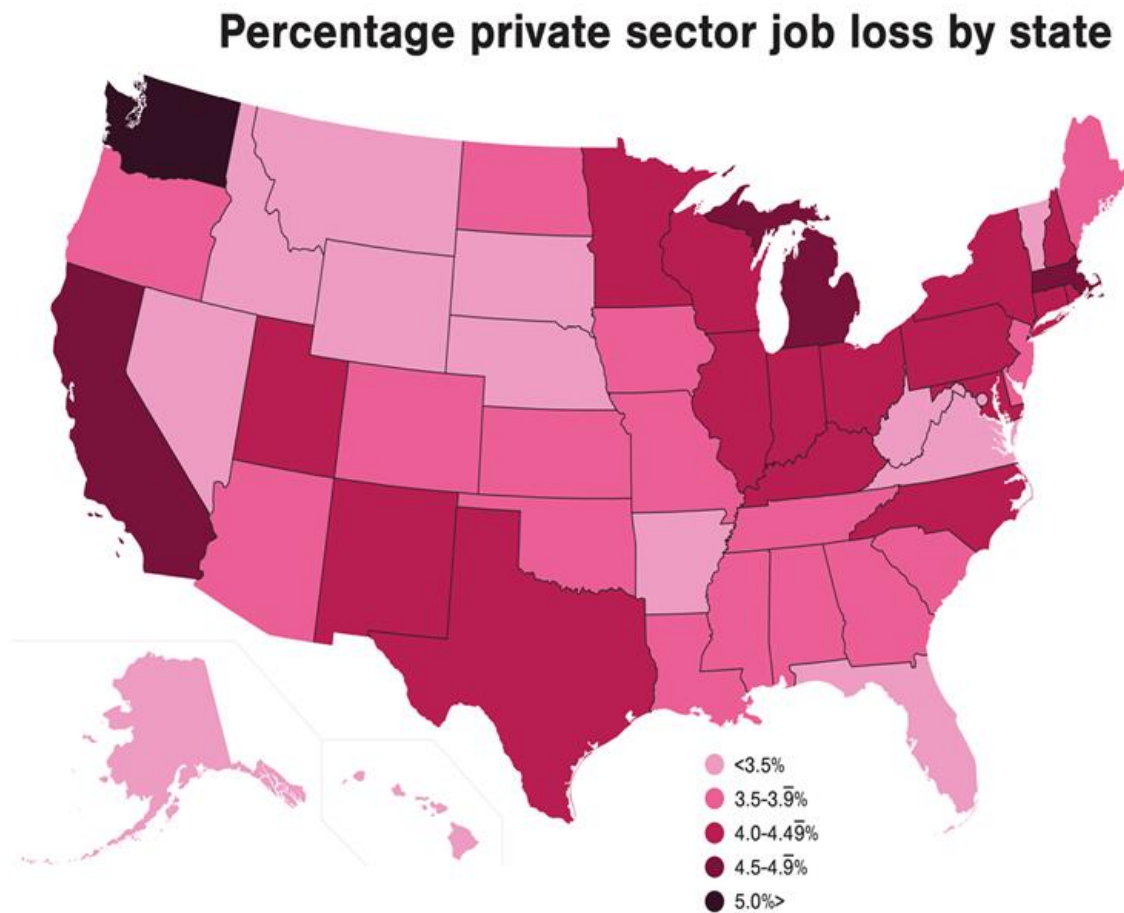
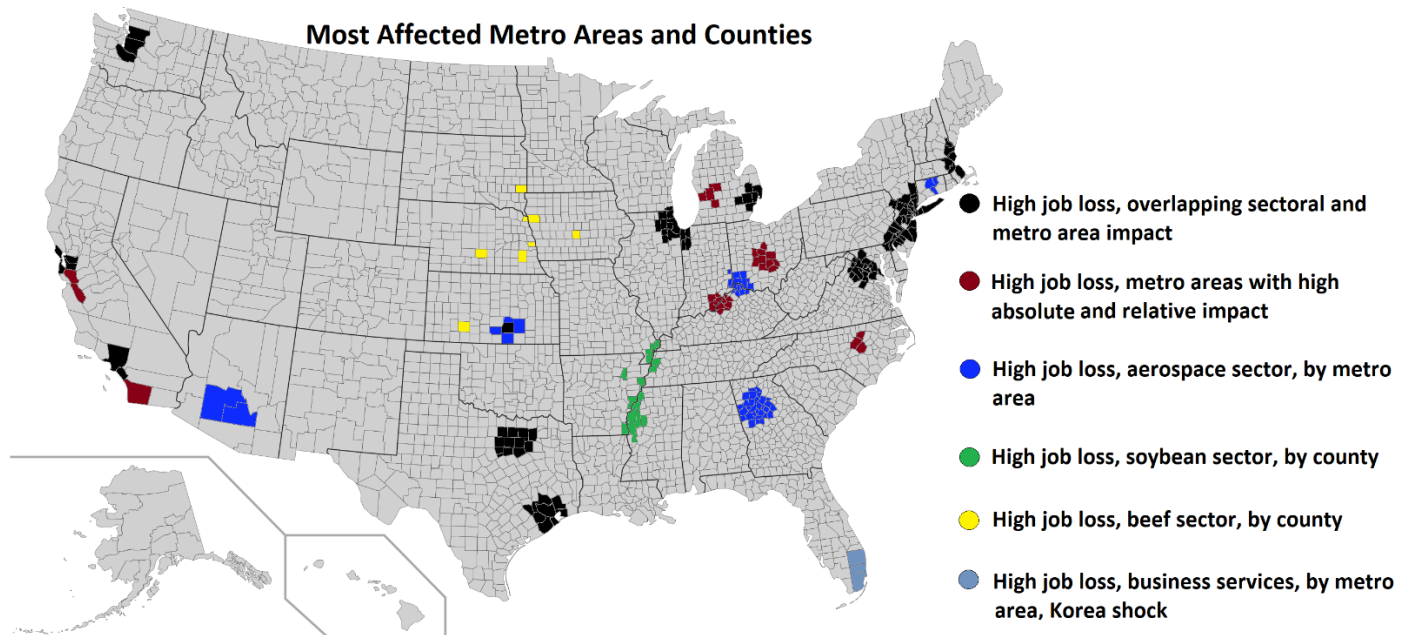


Figure 3



Source: Noland, Robinson, Moran 2016.

Figure 4



Source: Author's calculations

Table 1

Top metropolitan statistical areas affected by full trade war, in absolute job loss					
Metropolitan Statistical Area	States	Job Loss	Base total jobs	share of job loss	Rank
New York-Newark-Jersey City	NY-NJ-PA	314,659	7,380,284	4.3%	1
Los Angeles-Long Beach-Anaheim	CA	236,095	4,832,564	4.9%	2
Chicago-Naperville-Elgin	IL-IN-WI	165,375	3,743,271	4.4%	3
Houston-The Woodlands-Sugar Land	TX	115,606	2,397,772	4.8%	4
Dallas-Fort Worth-Arlington	TX	113,892	2,697,736	4.2%	5
Boston-Cambridge-Newton	MA-NH	110,383	2,166,783	5.1%	6
Philadelphia-Camden-Wilmington	PA-NJ-DE-MD	103,493	2,311,358	4.5%	7
San Francisco-Oakland-Hayward	CA	100,794	1,819,576	5.5%	8
Washington-Arlington-Alexandria	DC-VA-MD-WV	93,269	2,260,074	4.1%	9
Detroit-Warren-Dearborn	MI	86,738	1,614,457	5.4%	10

Source: Author's calculations

Table 2

Top metropolitan statistical areas affected by full trade war, intersection of areas with high absolute and percentage job loss

Metropolitan Statistical Area	States	Job Loss	Base total jobs	share of job loss
San Jose-Sunnyvale-Santa Clara	CA	65,141	866,228	7.5%
Louisville/Jefferson County	KY-IN	32,907	522,501	6.3%
Seattle-Tacoma-Bellevue	WA	85,676	1,482,565	5.8%
San Francisco-Oakland-Hayward	CA	100,794	1,819,576	5.5%
San Diego-Carlsbad	CA	58,967	1,084,837	5.4%
Detroit-Warren-Dearborn	MI	86,738	1,614,457	5.4%
Grand Rapids-Wyoming	MI	23,030	444,446	5.2%
Boston-Cambridge-Newton	MA-NH	110,383	2,166,783	5.1%
Raleigh	NC	21,855	445,913	4.9%
Los Angeles-Long Beach-Anaheim	CA	236,095	4,832,564	4.9%
Columbus	OH	33,785	799,383	4.2%

Source: Author's calculations

Table 3

Metropolitan statistical areas with highest job loss in aerospace industry, in absolute job loss					
Metropolitan Statistical Area	States	Job Loss	Base total jobs	share of job loss	Rank
Seattle-Tacoma-Bellevue	WA	31,115	1,482,565	2.1%	1
Los Angeles-Long Beach-Anaheim	CA	17,060	4,832,564	0.4%	2
Wichita	KS	15,404	247,923	6.2%	3
Dallas-Fort Worth-Arlington	TX	10,933	2,697,736	0.4%	4
Hartford-West Hartford-East Hartford	CT	7,846	515,307	1.5%	5
Phoenix-Mesa-Scottsdale	AZ	6,164	1,557,581	0.4%	6
Cincinnati	OH-KY-IN	4,384	866,288	0.5%	7
New York-Newark-Jersey City	NY-NJ-PA	3,936	7,380,284	0.1%	8
Atlanta-Sandy Springs-Roswell	GA	3,914	1,982,264	0.2%	9
Philadelphia-Camden-Wilmington	PA-NJ-DE-MD	3,155	2,311,358	0.1%	10

Source: Author's calculations

Table 4

Metropolitan statistical areas with highest job loss in business services industry, in absolute job loss					
Metropolitan Statistical Area	States	Job Loss	Base total jobs	share of job loss	Rank
New York-Newark-Jersey City	NY-NJ-PA	9,316	7,380,284	0.1%	1
Los Angeles-Long Beach-Anaheim	CA	5,858	4,832,564	0.1%	2
Seattle-Tacoma-Bellevue	WA	4,752	1,482,565	0.3%	3
Boston-Cambridge-Newton	MA-NH	3,851	2,166,783	0.2%	4
Chicago-Naperville-Elgin	IL-IN-WI	3,467	3,743,271	0.1%	5
San Francisco-Oakland-Hayward	CA	2,927	1,819,576	0.2%	6
Dallas-Fort Worth-Arlington	TX	2,738	2,697,736	0.1%	7
Washington-Arlington-Alexandria	DC-VA-MD-V	2,617	2,260,074	0.1%	8
Houston-The Woodlands-Sugar Land	TX	2,358	2,397,772	0.1%	9
Philadelphia-Camden-Wilmington	PA-NJ-DE-MI	2,286	2,311,358	0.1%	10

Source: Author's calculations